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FOOD PRICES, THE CONSUMER AND AAA PROBLEMS

(Adapted from a statement issued by the Agricultural Adjustment Administration, April 8, 1935.)

> "The Government and the farmer owe a duty to the consumer. The Government and the consumer owe a duty to the farmer. The duty of the Government and the farmer in the case of drought is to have supplies sufficient for consumers' needs and the duty of the consumer and the Government in case of unusually favorable weather is to protect the farmer against the effects of piling up undue surplus."
>
> -- Henry A. Wallace, Secretary of Agriculture.

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Our Food Dollar--Who Pays It? What Does It Buy? Who Gets It?

Should Food Be Sold At Bargain Prices?

Food still is the best bargain, excepting rent, which is increasing rapidly, on the list of items included in living costs of consumers. Food costs are 14 percent below the general level of living costs. Although food costs are 25 percent greater than in 1914, other items in the cost of living have increased 40 percent since 1914.

Does the Farmer Deserve a Profit?

A small rise in price to the consumer often means a large percentage increase in the farmer's returns. Food distribution costs tend to remain constant. The factory wage earner's dollar had a purchasing power in January, 1935, of 96 percent of its 1929 level, while the relative exchange value of a unit of farm products is 84 percent of its pre-war purchasing power.

Who Should Share in Depression Costs?

In sharing the burden of the depression, agriculture took price cuts of 64 percent while industry took price cuts of 21 percent. The farmer's share of the consumer's dollar spent for 14 food items dropped from 47.9 cents in 1928 to 32 cents in 1932, and increased to 42.5 cents in January, 1935.

Should the Farmer Be Responsible, Alone, for the Victims of Industrial Depression?

The farmer has supplied food to the American consumer at reduced rates for nearly a generation. Agriculture has carried, out of reduced earnings, a population that increased 2 1/4 million in five years, driven from the cities by the depression.

Have We a Duty to Feed Our Unemployed?

Cost of living, or price level, whether high or low, is of little consequence to 20 million persons who have no purchasing power except that provided by relief. Twenty-two percent of the population that should be gainfully employed is unoccupied. Industry must reabsorb unemployed to increased city buying or farm products with difficulty will remain at present price levels as more farm products are sent to market.

I. THE CONSUMER'S INTEREST IN PRESENT FOOD PRICES

The importance of the price of food to the consumer is shown by the fact that about a third of every dollar spent by wage earners and low salaried workers is spent for food.

Why Must Food Prices Be Higher Than in 1932?

When the Agricultural Adjustment Act was framed, it was evident that consumers were going to have to pay much more for food than they had been paying during 1932 if the farmer was to be enabled to stay in the business of feeding them. The difference in food costs shows a rise of not quite 25 percent as contrasted with an increase of nearly 40 percent in non-food costs of the pre-war period. The farmers' share of food costs has increased only 7 percent.

What Has Been the Trend of Living Costs?

The movement of food prices in relation to other prices in the consumer's budget is shown in the following figures, based upon the actual budgets of 100 typical wage earners' families in a midwestern industrial city. A budget which cost $971.00 before the war cost $1,720.00 in 1929; it cost $1,181.00 in 1933, and at present prices it costs $1,303.00. The food items which it contains would now cost $435.00 as compared with $353.00 in 1914; the non-food items would now cost $868.00 as compared with $618.00 before the war.

Does Change in Income Change Consumers' Food Choices?

It should be remembered in connection with these budgets that the figures for 1914 and for 1933-1935 have been obtained by pricing, for those years, the same articles for which the families studied actually spent their money in 1929. Today the actual purchases of such families probably include less meat and more fruits and vegetables than in 1929.

II. THE FARMER'S INTEREST IN PRESENT FOOD PRICES

The importance of food prices to the farmer is self-evident; he is the nation's specialist in food production, and his income, with only two important exceptions, cotton and tobacco, is derived from sales of products contributing to the nation's food supply.

How Important to the Farmer is a Small Increase in Retail Price?

His interest in the retail prices of food is sharpened by the fact that distribution costs for any one type of food are more or less constant from year to year, so that a small rise in the price of food to the consumer may mean a large percent of increase in the farmer's returns. On the other hand a small decrease in retail price may mean a large percent decrease in the price at the farm. The distributor's margin is generally a large share of the consumer's dollar. Consequently the farmer's share of the consumer's dollar spent for food, varies with the commodity considered. The proportion taken for distributor's costs is considerably greater for such commodities as fresh fruit and vegetables and package foods than for less perishable or less highly processed products.

What Is the Farmer's Share of the Consumer's Food Dollar?

The farmer's share of the consumer's food dollar spent for 14 food items has varied as follows:

47.9	cents	in 1928
47.5	"	" 1929
32.0	"	" 1932
35.0	"	" 1933
37.5	"	" 1934
42.5	"	" January, 1935.

If the farmer's share for all food items bought by consumers were computed, it would probably be smaller still.

Are Consumers Paying too Much for Food?

The farmer is not only interested in the retail price of what he has to sell but also in the retail price of what he has to buy. While retail food prices advanced from 90 percent of the pre-war level in March, 1933, to 122 percent, in March, 1935, prices paid by farmers advanced nearly as much, from 100 percent in March, 1933, to 128 percent in March, 1935.

III. UNITY OF INTEREST IN FOOD PRICES

Is the Farmer's Share Large Enough?

The AAA and other programs, beginning in 1933, have shown progress during twenty-one months by removing surpluses. These programs have boosted returns to the farmer which in turn increase his purchasing power and thereby help the city worker to earn the dollars he pays out for food.

What Causes Price Changes?

Two outstanding causes of the recent changes in prices received by farmers and prices paid by consumers are the recovery programs and the drought of 1934. Three-fifths of the rise took place during the first year of recovery; two-fifths during the second. During the first year the rise in prices was chiefly due to monetary and industrial recovery programs; during the second year chiefly to the adjustment programs and the drought.

What Was Accomplished by the Cattle Purchase Program?

The Agricultural Adjustment Administration, the Federal Emergency Relief Administration and the Farm Credit Administration stepped into the drought emergency to save as much as possible of the livestock needed for future production. They also wanted to conserve for human needs as much as possible of the cattle that had to be slaughtered and to supply farmers with cash to rebuild their herds. The orderly marketing of this enormous slaughter was helped by the Government drought relief program, under which a great deal of stock was saved from dying on the range or being sacrificed at very low prices.

How Shall We Use Excess Food Supplies?

By January 1, 1935, the Government had purchased 7,815,026 head of cattle at a cost of $102,744,455.00; and 3,647,818 sheep and goats at a cost of $7,136,310.00. About 17 percent of the cattle were condemned as unfit for food. The remainder were taken in charge by the Federal Relief Administration, which processed locally a sufficient supply for local needs and shipped the rest for use elsewhere. Many of the latter cattle were not slaughtered at once; 1,633,500 head were shipped to graze in states where pasturage existed, with the result that there was more meat and less pressure on the packers.

What Was Done With the Meat Obtained Through Government Cattle Purchases?

Almost 4 percent of the normal annual United States meat requirements was distributed to those on relief.

Total normal yearly consumption of meat is about 18 billion pounds as compared with 720.6 million pounds which was distributed from October 1933 to January 1935, by the Federal Surplus Relief Corporation.

IV. COURSE OF FOOD PRICES

Must We Guard Against Drought?

The drought of 1934, by causing a shortage in important items of the country's food supply, has in the course of the last few months raised the farm prices of a number of products and is still doing so.

How Should Contracted Land Be Used?

As the drought grew worse, the planting of emergency feed crops on contracted acres was encouraged; 88.6 percent of these acres were finally so planted, with a gain of thousands of tons of hay and roughage to help relieve the feed shortage.

Are Plans for the Future Necessary?

With a view to insuring an adequate seed supply for 1935, the Government by December 1, 1934, had bought 18,988,000 bushels of seed grain of superior quality for the coming season, and carried out other measures to save supplies.

What Really Caused the Reduction in Crops?

The drought was responsible for about four-fifths and the adjustment programs for about one-fifth of the reduction in wheat and corn; the reductions in the other commodities, for which no control programs existed, were due solely to the drought. The fact that prices of foods in the cereal group have not risen to higher levels in spite of these unusually low yields, is due to the existence of carryovers.

What Was the Effect of Drought on Livestock?

The most acute problem of the drought was to adjust existing animals to available feed supplies. Government action was taken both in regard to animals and to available feed.

What Reduction in Livestock Numbers Was Effected by Drought?

Cattle decreased by some 7,600,000 head, though there are still some 4,000,000 head more on farms than in 1928, the low point of the current cattle cycle. None of this reduction was due to Government control. Sheep decreased by about 2,446,000 head; the 49,766,000 remaining was the smallest number since 1929. None of this reduction was due to a control program. Hogs decreased by more than 20,000,000; in January 1935, the 37,000,000 hogs on farms constituted the smallest number in 50 years. In the autumn of 1933, the Government emergency slaughter removed 6,200,000 pigs; the 1934 corn-hog program provided for a reduction of 13,600,000 more or 55 percent of the reduction that actually took place. It is however estimated that had there been no control program the drought would have necessitated a reduction about as large as that which took place.

How Are Drought Shortages Being Replaced?

The 1935 corn-hog program allows planting of corn up to 90 percent of the base acreage, an increase of about 1/8 over the 1934 maximum, and production of hogs for market from 1935 litters up to 90 percent of the base, an increase of about one-fifth. Wheat production has been raised from 85 to 90 percent of the base, and on March 20, in view of moisture deficiencies in parts of the winter wheat areas, virtually all restrictions on spring wheat planting were removed. While the size of the 1935 wheat crop is still very uncertain, it seemed advisable to guard against another drought.

How Can Both the Consumer and the Producer Be Protected?

The drought of 1934 brought home the importance of carrying over enough grain from one season to the next to insure adequate supplies in case of partial crop failure. The carryovers of the last ten years, however, were not planned with this sort of insurance in view. They just happened because of the loss of the country's markets for farm exports. Their price-depressing effects were ruinous to the farmer. Therefore, it is necessary to have a plan which at one and the same time will insure the consumer against scarcity, keep the carryover from hurting the farmer and enable the Government to return to producers any surpluses that it might temporarily accumulate. A plan of this sort has been advocated for years by Secretary Wallace; it is contained in one of the amendments to the Agricultural Adjustment Act now before Congress.

V. RELATIVE COSTS OF ITEMS IN BUDGET

Can the Consumer Pay Increased Prices?

The relative heights of present prices for the various groups of commodities which make up the average consumer's budget can be shown by comparing costs in November, 1934, with costs in 1913. If the 1913 level is taken as 100, the November, 1934, level was 138.9 and the February, 1935, figure about 142. The levels of the various commodity groups, as compared to 1913 = 100, were:

	November, 1934 1/	February, 1935 2/
Food	114.7	121
Clothing	136.3	134
Housing	102.3	104
Fuel & Light	158.0	
Household furnish.	169.5	186
Miscellaneous	195.9	
Total	138.9	142

1/ Bureau of Labor Statistics
2/ Estimated

What Makes Living Costs Higher?

Except for rent, therefore, food is the lowest item in the list. The trend in rents, which has been downward ever since 1929, was reversed at the end of 1934. The National Industrial Conference Board's study of the cost of living for workers showed that the new rent contracts of January 1935 ran about 7 percent above those of a year before, and Dun and Bradstreet report increases of residential rents of as much as 20 percent in some areas in the course of 1934. It seems probable that if increases to the degree indicated by these figures accompanied the rise in foods of 11 percent from July 1934 to February 1935, the pressure on the cost of living popularly attributed to the latter may have had a second cause.

How Does the City Dweller Spend His Money?

Foods are at present 14 percent below the general level of living costs. They are considerably more than that below the level of costs of goods and services other than foods and clothing and rent. The level of foods of 122 percent may be contrasted with clothing at 134 percent and with other groups of items that average about 186 percent. These other costs, including fuel and light, household goods and other items such as health and recreation, take about as much of the consumer's money as do

foods. In relation to their price levels (186) foods (at 122) are about 35 percent below. In view of the fact that food prices have risen out of the depression depths to a better balance with general cost of living, the question may well be raised if other items in the cost of living may not be the real ones that are relatively too high.

Has the Farmer Received a Fair Price For Food Products?

In considering the recent rise in food prices, it should not be forgotten that the American public has been accustomed, for the last fifteen years, to be supplied with food by the American farmer at a level of prices far below the levels of most of his other expenditures. In 1920, both foods and the total cost of an average budget attained a level about 200 percent of that of 1913. The total cost of living thereafter receded to a level of about 170-175 percent and remained at that figure during the years 1922-1929, but food costs fell to 142 percent in 1922 and never regained the pre-war relationship to the other items in the budget. In 1922, they were 16 percent below the general list; in 1929, 8 percent below; in 1933, 24 percent below; in 1934, 19 percent below; and at present about 14 percent below.

VI. RELATION BETWEEN EMPLOYMENT AND PURCHASING POWER

Do Payrolls Affect Farm Prices?

It is primarily in relation to the payroll situation that the farmer's present prospects must be considered. The restoration of urban purchasing power is the necessary next step to improved prices for the farmer or any one else. That means re-employment. The capacity of the city worker who has a job to pay the prices reflected in the present cost of living is shown by the following tables, which indicate that wage earnings per person employed in factories had a purchasing power in January 1935 of 97.8 percent of their 1929 level in Philadelphia, 89 percent in Chicago, and 96.3 percent in Massachusetts, and for all factory employees throughout the country, 96 percent.

Purchasing Power of Wage Earnings per Person
Employed in Manufacturing (1929 = 100)

	Philadelphia	Chicago	Massachusetts	United States
1929	100	100	100	100
1932	88.9	77.3	91.6	87
January, 1933	87.5	77.7	87.7	83
January, 1934	91.7	84.1	93.6	90
January, 1935	97.8	98.0	96.3	96

Is the Level of Living Costs Important to the Unemployed?

But against these figures should be set the fact that about 22 percent of the population that should be gainfully employed is unoccupied, and that some 20 million persons are on relief. The price level, the cost of living, whether high or low, is to them a matter of little consequence, because they have no purchasing power except that provided by relief.

Will Farm Prices Slump Again?

For the employed part of the population, prices and capacity to pay are in fair balance. But until urban purchasing power is increased by re-absorption of the unemployed into industry, farm prices will with difficulty remain at their present levels as more farm products are sent to market.

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